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IN THE

Supreme Court of the United States

OCTOBER TERM, 1950

No. 439

AMERICAN POTATO DRYERS, INC., and BROADUS WILSON,
Petitioners,

v.

FREDERICK C. PETERS,
Respondent.

PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FOURTH CIRCUIT AND BRIEF IN SUPPORT THEREOF.

JANE ELIZABETH NEWTON DEW,
Attorney for Petitioners.

PRESS OF BYRON S. ADAMS, WASHINGTON, D. C.

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AMERICAN POTATO DRYERS, INC., and BROADUS WILSON,
Petitioners,

v.

FREDERICK C. PETERS,
Respondent.

PETITION FOR WRIT OF CERTIORARI.

To the Honorable, the Chief Justice and Associate Justices of the United States Supreme Court:

Your petitioners, American Potato Dryers, Inc., and Broadus Wilson, pray that a writ of certiorari issue to review the judgment of the United States Court of Appeals for the Fourth Circuit entered September 13, 1950, denying petitioners' counterclaim, and reported at 184 F. (2d) 165, (R. Vol. VI, pp. 1351-65) affirming the judgment of the District Court for the Eastern District of North Carolina (R. Vol. I, pp. 30 to 45).

A certified transcript of the record in this case, including the proceedings in the Court of Appeals for the Fourth Circuit, is furnished herewith, in accordance with Rule 38 of the rules of this Court. (R. Vol. VI, pp. 1351-65)

OPINION OF THE COURT BELOW.

The Findings of Fact and Conclusions of Law of the District Court for the Eastern District of North Carolina and judgment pursuant thereto were duly entered on December 2, 1949 (R. Vol. I, pp. 30 to 45).

The opinion of the Court of Appeals for the Fourth Circuit was filed September 13, 1950 and is reported at 184 F. (2d) 165. (R. Vol. VI, pp. 1351-65)

JURISDICTION.

(1) This is a suit arising under the patent laws of the United States, Judicial Code, Sec. 24 (7) (28 U. S. C. Sec. 41 (7)).

(2) The jurisdiction of this Court is invoked under Section 240 (a) of the Judicial Code, as amended by the Act of February 13, 1925, 43 Stat. 938, (28 U. S. C. Sec. 347(a), and under the anti-trust laws (15 U. S. C. Sec. 4).

SUMMARY STATEMENT OF MATTERS INVOLVED.

This is a suit brought originally by respondent, Frederick C. Peters, for direct and contributory infringement of the Arthur patent No. 2,228,192 issued January 7, 1941, covering a process of drying washed potatoes with hot air, and for alleged misuse of secret information and violation of an agreement of August 31, 1941 between respondent and petitioner Wilson (R. Vol. III, pp. 1 to 29).* In their answer, petitioners denied validity and infringement, and in a counterclaim charged that respondent had damaged them by improper use of his patent in violation of the anti-trust laws (R. Vol. I, pp. 1 to 14). During the trial respondent amended his compaint to charge infringement under Claim 3 of Arthur patent No. 2,326,115 issued August 10, 1943.

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* References are to record printed for use of the United States Court of Appeals for the Fourth Circuit.

On December 2, 1949, the District Court entered findings of fact and conclusions of law, holding both patents invalid and not infringed, even if valid; that petitioners had not used any secret information and had not violated the contract with respondent; that before the patent issued and before petitioners made any kind of drier respondent began to threaten suit against the petitioners and their prospective customers (R. Vol. I, pp. 36-7; that petitioners merely manufactured and sold an unpatented apparatus (R. Vol. III, p. 88); that petitioners did not make any kind of drier prior to February, 1941, and only made in 1941 driers which operated at very much higher air temperatures and velocities and with a much shorter time of treatment than are called for by the claims of the patent, and that respondent has made no contention in this suit that these driers infringed the patent (R. Vol. I, p. 37); that users of machines manufactured by petitioners did not practice the steps of the process patent (R. Vol. I. p. 33); that respondent's misuse of the process patent in violation of the anti-trust laws bars him from relief (R. Vol. I, p. 37); that A. F. Arthur was acting for and as the agent for respondent (R. Vol. I, p. 42); that the contract entered into on December 17, 1941 between the respondent and Food Machinery Corporation (R. Vol. I, p. 276) (Int. R2109), as well as the modified agreement of March 13, 1946 (R. Vol. I, p. 255) (Int.* O. R.** p. 2436), violates the anti-trust laws (R. Vol. I, p. 36; *that petitioners were damaged and that assuming respondent's acts to be unlawful or in violation of petitioners' rights, petitioners are entitled to an accounting* (R. Vol. I, p. 42); but the District Court concluded that the evidence does not show that respondent planned to monopolize the business of manufacturing, selling, or leasing potato-drying machines; that what respondent did was not calculated to result in an illegal monopoly except for the

* First introduced.

** Original record.

agreement with Food Machinery Corporation; and that the evidence did not show that this contract had been enforced or that petitioners had been injured in their business or property by reason of the unlawful provisions (R. Vol. I, pp. 42-3).

An appeal and cross appeal were duly taken by the petitioners and the respondent to the United States Court of Appeals for the Fourth Circuit, and on September 13, 1950, the Circuit Court affirmed the judgment of the District Court. Respondent took no appeal to the District Court's finding that the 2,326,115 apparatus patent was invalid.

Analysis of the Opinion of the Court below read in connection with the *findings of the District Court.* The opinion of the court below held as follows:

> "So far as the threats of suit for patent infringement are concerned, the evidence supports the finding of the lower court that these were made in good faith in protection of what the plaintiff thought were rights secured by the patent . . ." (R. Vol. VI, p. 1365)

Petitioners of course concede that if the respondent had believed he had a valid patent he could pursue whatever rights the law gave him in that patent without liability in the event that the patent subsequently was declared invalid. But the court below went further than this. The opinion taken in connection with the findings of the District Court holds that the owner of a patent could use the patent in a way forbidden by law and escape liability under the anti-trust laws if he thought in good faith that the patent law gave him those rights. In other words, the court is holding that the owner of a patent may exceed the rights given to him by the patent and justify on the ground that he believed he was acting in accordance with law.

This is clear from the findings of the District Court and the facts admitted in the record quoted below:

The District Court found: Finding No. 28:

> Petitioners have " . . . merely manufactured and sold an unpatented apparatus . . ." (R. Vol. III, p. 88)

The District Court found: Finding 45:

> "*Plaintiff began to threaten suit* against the defendants and their prospective customers as early as December, 1940, *prior to issuance of patent* No. 192 on January 7, 1941. . . . The evidence shows that the defendants did not manufacture a potato drier of any kind prior to February, 1941, and that during the remainder of that year the only driers manufactured and sold or leased by defendants were of the so-called 'flash' type which operated at very much higher air temperatures and velocities and with a very much shorter time of treatment than are called for by the claims of patent No. 192. *Plaintiff has made no contention in this suit that defendants' 'flash'* driers infringed that patent." (Italics added) (R. Vol. I, pp. 36-7).

And in detail as to some of the threats of respondent, the District Court found: Finding No. 2 on the Counterclaim (R. Vol. I, pp. 37 to 43):

> " . . . About December 18, 1940, Arthur* told the witness Ryan** that a basic patent would be issued on January 7 of the following year and that they were going to start action against *anyone using a drier after that time, claiming that there would be no other drier on the market.* . . . " (Italics added) (R. Vol. I, pp. 39-40).

> " . . . On January 20, 1941, the *plaintiff told* the defendant *Wilson he was not going to allow anyone to dry potatoes with heated air,* that *Arthur process patent No. 192 was a basic patent sufficiently inclusive to stop anybody from using heated air in the drying of potatoes, that he would not let Wilson make heated air*

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* "The evidence establishes that A. F. Arthur was acting for and as the agent of the plaintiff therein." (District Court Finding No. 3 on the counterclaim) (R. Vol. I p. 42).

** Ryan was a large potato shipper in the Northwest who had just agreed to take one of the proposed machines of petitioner American Potato Dryers, Inc., and to represent American Potato Dryers, Inc. as a sales agency (R. Vol. I p. 181).

driers and that he would use the patent against him. . . ." (Italics added) (R. Vol. I, p. 38).

" . . . On January 20, 1941, the *plaintiff stated* to the defendant Wilson: '*Wilson, I don't give a d—— what the law is, if you build any sort of a drier, I will break you,* I have got the money to do it and money talks, and anyway it won't cost me over a nickel (on the dollar) to do it as I pay it out in income tax anyway.' . . ." (Italics added) (R. Vol. I, p. 38).

" . . . Late in 1940 Phillips & Company contracted with American Potato Driers, Inc. for two machines for use at LaCrosse and Santa Fe, Florida; on January 16, 1941, after a visit by Arthur, Phillips and Company wrote Wilson and LaCrosse Growers, expressing fear of a suit by plaintiff if they used the machines; in May Phillips and Company demanded and received from defendants a guarantee against trouble from plaintiff, but thereafter dried only the potatoes of one of their growers. . . . " (R. Vol. I, p. 38).

" . . . Arthur stated to the witness Patterson that if he bought one of these machines with the drier attached, he would have to face the consequences; also that his company represented the plaintiff and that not only would he be sued, but he would be stopped from using the machine. Patterson signed a contract for a Wilson machine but had a clause inserted making it optional whether or not he should use the drier; in fact, he 'did not use the drier very much'. . . . " (R. Vol. I, p. 39).

" . . . The witness Rhodes arranged with the witness Patterson for one and Bertolla for two American Potato Dryers, Inc. machines; later Arthur talked to them and 'they became somewhat disturbed about what he told them about infringement on Mr. Peters' patent'. . . ." (R. Vol. I, p. 40).

" . . . The witness Whitnack built a potato washing and drying machine about 1937 with the help of an air conditioning concern and later leased the machine from Wilson in 1941, which he used for that season. This machine was abandoned because Whitnack was informed 'by a man by the name of Arthur of the F. C. Peters' Company that *that machine was patented;* that

they were canvassing the territory where this machine and like machines were installed,' . . . " (Italics added) (R. Vol. I, p. 41).

"There is substantial evidence of damages sustained by the defendants and, assuming plaintiff's acts to be unlawful or in violation of the defendants' rights, the defendants are entitled to an accounting." (R. Vol. I, p. 42).

The following facts are admitted in the record:

(1) Respondent never issued any licenses under his process patent except the one to Food Machinery Corporation and in connection with the leasing of his own machines (R. Vol. I, p. 278) (R. Vol. IV, p. 381).

(2) During the year 1941 Peters conducted the business of leasing potato driers (R. Vol. I, p. 34) through his wholly owned General Produce Dryers, Inc. (R. Vol. I, p. 236) (Pl. Ex. 22, Int. at O. R. Vol. IV, p. 599) through which he owned eleven driers (R. Vol. I, p. 276).

(3) Respondent has never filed suit against anyone on patent 2,228,192 except petitioners (Peters' Deposition, Question 192, p. 43). (O. R.* p. 2148)

(4) Respondent was negotiating his contract with Food Machinery Corporation during the time he was threatening petitioners and petitioners' customers (R. Vol. V, p. 753).

The situation thus disclosed is: The respondent owned a process patent which he believed to be valid. On the basis of this patent he threatened a competing manufacturer of machines which did not employ the steps of that patent and threatened suits against that manufacturer's customers who did not use the steps of the patent. Yet the Court of Appeals for the Fourth Circuit has held that if these threats were made by respondent under the belief that he was exercising rights granted by his patent, he has a valid defense in an anti-trust suit.

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* Original Record.

QUESTIONS PRESENTED.

The decision of the United States Court of Appeals for the Fourth Circuit presents the following questions:

(1) Where a patent owner misuses his patent by entering into a contract based thereon, which contract is in violation of the anti-trust laws, is the patent law or the anti-trust law to determine his liability for damages caused by his related overt acts the inevitable consequences of which are to further the contract?

(2) Is a patent owner who has misused his patent by violation of the anti-trust laws in attempting to extend its scope to unpatented machines relieved from liability for damages which are the direct and proximate result of his overt acts and unjustified threats of infringement suits, merely because he may believe he is acting within his rights?

(3) May the owner of a process patent utilize that patent to threaten customers of a competitor in interstate commerce with infringement suits if they buy unpatented machines from the competitor, which machines do not utilize the steps of the process, thus damaging the competitor, and then justify his actions by evidence that he believed his process patent gave him a right to use it in that way?

REASONS FOR GRANTING THE WRIT.

The discretionary powers of this Court to issue a writ of certiorari are invoked under and as suggested by Rule 38 of this Court.

(1) The United States Court of Appeals for the Fourth Circuit has decided a federal question in a way probably in conflict with applicable decisions of this Court. The Court has held that the owner of a process patent, who has threatened and brought an infringement suit against a manufacturer of unpatented machines, and has threatened

customers of the manufacturer who have not employed the steps of the process patent, has not violated the anti-trust laws provided that he believes in good faith that he has a right to make such threats. This is contrary to this Court's rule established in *Mercoid Corporation* v. *Mid-Continent Investment Company,* 320 U. S. 661, and *Mercoid Corporation* v. *Minneapolis-Honeywell Regulator Company,* 320 U. S. 680, that

> "The legality of an attempt to bring unpatented goods within the protection of the patent is measured by the anti-trust laws and not by the patent law."

and the rule of this Court established in *Carbice Corporation* v. *American Patents Development Corporation,* 283 U. S. 27, and *Leitch Manufacturing Company* v. *Barber Company,* 320 U. S. 458, that

> "Every use of a patent as a means of obtaining a limited monopoly of unpatented material is prohibited."

It is respectfully submitted that the Circuit Court has limited the doctrine of the *Mercoid* case to situations where the defendant acted knowing that his action was illegal.

The decision of the Circuit Court in this case involves questions important to the public because, if allowed to stand, it will (a) tend to unsettle principles heretofore established by this Court and observed in other circuits, (b) create confusion as to the law upon the subject, (c) restrict the logical development of patent and anti-trust law under the guidance of, and as contemplated by, this Court, and (d) enable violation of the anti-trust laws with impunity where the misuse of a patent is involved.

Wherefore, it is respectfully submitted that this petition for writ of certiorari to United States Court of Appeals for the Fourth Circuit, should be granted.

AMERICAN POTATO DRYERS, INC., and
BROADUS WILSON,

JANE ELIZABETH NEWTON DEW,
Attorney for Petitioners.

BRIEF IN SUPPORT OF PETITION FOR WRIT OF CERTIORARI.

SPECIFICATION OF ERRORS.

The errors which petitioner will urge if the writ of certiorari is issued are that the Circuit Court for the Fourth Circuit erred:

(1) In construing respondent's threats against petitioners because they manufactured an unpatented competing article and against petitioners' customers because of their use of such articles, which threats the District Court found resulted in injury and damage to petitioners, in accordance with the patent statutes instead of in accordance with the anti-trust statutes, contrary to the decisions of this Court in *Mercoid* v. *Minneapolis-Honeywell Regulator Co.*, 320 U. S. 680 and *Mercoid* v. *Mid-Continent Investment Co.*, 320 U. S. 661.

ARGUMENT.

The decision of the Circuit Court holding respondent's acts excusable, where the findings of the District Court show *per se* that those acts were in furtherance of an attempt to extend the monopoly of a process patent to unpatented articles, is contrary to the decisions of this Court in *Mercoid* v. *Minneapolis-Honeywell Regulator Co.* and *Mercoid* v. *Mid-Continent Co.*, both *supra*, and other decisions of this Court.

The inherent effect of the threats of respondent, detailed in the foregoing findings, was directed to the elimination of competition in unpatented machines, either their manufacture, sale or use.

Respondent's threats were begun before petitioners had made any sort of a potato drier and at a time when respondent could not possibly have had any reason to assume infringement; and were continued after he should have known as indicated by the District Court (Finding of Fact Nos. 12, 15 and 45) (R. Vol. III, p. 79, 80, 90) that the "flash" driers

made by petitioner American Potato Dryers, Inc. not only did not infringe the Arthur process but were inherently incapable of infringing it. Respondent's activities were based solely upon the 2,228,192 process patent embracing steps as to which the Circuit Court was led to remark:

> "It is difficult to see at this time in the history of the arts and sciences, how it could possibly be thought that there was patentability in the use of hot air in drying vegetables."

Yet despite his campaign of threats and intimidation, respondent has never brought any suit under the 2,228,192 patent other than the present one; and he waited over six years to initiate this suit after he began his campaign of threats and intimidation.

It is submitted that the conduct discussed above and detailed by the District Court's Finding No. 2 (R. Vol. I, pp. 37 to 42) *per se* brings the decision of the Circuit Court in this case in conflict with the decision of this Court in *Mercoid* v. *Mid-Continent Investment Company,* 320 U. S. 667, where this Court said:

> "The patent is employed to protect the market for a device on which no patent has been granted."

The threats detailed in the above finding No. 2 of the District Court took place in 1941 during the period when respondents were negotiating the contract and exclusive license agreement with Food Machinery Corporation (R. Vol. V, p. 753) which the Court found violated the antitrust laws (R. Vol. III, p. 89).

The fact that the extension of a patent is involved *per se* in the threats, in the contract, and the institution of this suit to prevent petitioner from competing in the manufacture and sale of unpatented machines brings the decision of the Court below in direct conflict with the long line of decisions in which this Court has condemned attempts by patent owners to enlarge and magnify the scope of the monopoly inherent in the patent grant.

These decisions of which *Carbice Corporation* v. *American Patents Development Corporation,* 283 U. S. 27, is an early and leading example, while upholding the right of a patent owner to exploit the advantages legally embodied in his patent, have refused to sanction attempts by a patent owner to extend his monopoly to embrace unpatented materials. And in pursuance of this policy, this Court in discussing the *Carbice Case* said:

> " . . . By the rule there declared every use of a patent as a means of obtaining a limited monopoly of unpatented material is prohibited. It applies whether the patent be for a machine, a product, or a process. It applies whatever the nature of the device by which the owner of the patent seeks to effect such unauthorized extension of the monopoly. . . ." (*Leitch Mfg. Co.* v. *Barber Co.,* 302 U. S. 458)

The District Court held that the agreements between respondent and his exclusive licensee, both as originally made on December 17, 1941 and as modified on March 13, 1946, a few days before this suit was brought, were in violation of the anti-trust laws (R. Vol. I, pp. 35-6). The Arthur patent 2,228,192 which formed the basis for those contracts contained process claims only. Yet in the contract respondent ignores the process and goes directly to the control of unpatented devices, machines or equipment (R. Vol. I, p. 277).

The original agreement with Food Machinery Corporation does not even grant a license to the exclusive licensee under the process patent to practice the steps of the process or to sublicense the same, except by implication, but undertakes to set up and define a course of action to control and profit from the rental of unpatented machines and to exclude others from the field.

In the modified agreement, signed in 1946, which the District Court also found violated the anti-trust laws (R. Vol. I, pp. 35-6), this omission is recognized and such a license to practice and to sublicense the practicing of the

steps of the process is included, but the same plan of controlling unpatented machinery with the process patent is retained (R. Vol. I, p. 255).

Section 1* of the original agreement reads:

> "1. Peters hereby grants and conveys to Food Machinery . . . the exclusive license to manufacture, use, and lease, but not sell, and to license others to manufacture, use, and lease, but not sell, throughout the United States, its territories and possessions and all foreign countries, *equipment* of any and all kinds embodying or employing the inventions disclosed in United States Letters Patent No. 2,228,192, and in the patent applications listed in Schedule 'A' attached hereto, and in all other Letters Patent and applications for Letters Patent which may be made or acquired by Peters on any of the inventions under which Food Machinery is licensed by this agreement." (Italics added). (R. Vol. I, p. 277) (Int. O. R. p. 2109).

And in section 7 of the same agreement it was stated:

> "7. Subject to the provisions of Section No. 13 (c) hereof, Food Machinery shall diligently endeavor to create a demand for *machines* embodying or employing the inventions covered by the Arthur patent 2,228,192, and shall manufacture them in such quantities as to supply all reasonable leasing demands therefor, and

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* This paragraph is merely surplusage as regards pending applications for the only applications respondent ever had in addition to the one eventuating in the patent in suit were: (a) Serial No. 370, 304, which eventuated into patent 2,326,115 the structure of which the District Court found was designed by Wilson and his associates before Arthur saw it and prior to any date of conception that can be assigned to Arthur (R. Vol. I, pp. 34-5), (b) Serial No. 326,618 which eventuated into patent 2,286,705 with one claim the only novel feature, if any, of which was the claimed "flexible cushioning element for cushioning the edibles against bruising as they are discharged from one conveyor for delivery to the succeeding conveyor in said path" (Conclusion of Claim 1, patent 2,286,705) and about which the patentee Arthur testified was not used in their driers after 1941 or 1942 (Arthur Dep. RDQ 1212). (O. R. p. 551; R. p. 1440).

> Food Machinery agrees not to manufacture, lease or sell during the term hereof, any potato-drying *equipment* competitive with that disclosed in the Arthur patent or adapted to practice the process of said patent." (Italics added) (R. Vol. I, p. 282) (Int. O. R. p. 2109).

The foregoing section was changed by the modifying agreement of March 13, 1946 to read:

> "Food Machinery further agrees that with respect to any competitive drying *equipment* that it may manufacture, use, lease or sell, as aforesaid, it will so design such *equipment* as to make it difficult, in the ordinary and reasonable commercial use of the same, for such *equipment* to be modified or operated without substantial change, or without impairing its capacity to the point of commercial impracticability so as to embrace the aforesaid inventions or to practice the process of the aforesaid Arthur Patent." (Italics added) (R. Vol. I, p. 256) (Int. O. R. Vol. X, p. 2436)

Section 6 (a) of the original agreement based the

> "royalty on each *machine or device* manufactured and leased. . . ." (Italics added) (R. Vol. I, p. 279) (Int. O. R. p. 2109).

Finally, by Sec. 8 of the original agreement, as well as by the modifying agreement, respondent agreed as a consideration of the contract to bring the present suit against petitioners who merely manufactured and sold an unpatented apparatus:

> "as soon as it is found by the parties hereto, that Mr. Wilson's potato-drying *equipment* (now marketed under the name of American Potato Dryers, Inc.) is, or may be, an infringement of the patents or any of them comprehended hereby and may retain for himself any and all benefits and recoveries of damages in such suit." (Italics added) (R. Vol. I, p. 282) (Int. O. R. p. 2109).

Respondent's threats toward petitioners' customers and potential customers if they used unpatented machines were, moreover, a logical sequence of respondent's threat made on January 20, 1941 to petitioner Wilson when he declared

> "Wilson, I don't give a d—— what the law is, if you build any sort of a dryer I will break you. I have got the money to do it and money talks. . . ." (R. Vol. I, p. 38)

It is respectfully submitted that the hostile acts by respondent toward petitioners, including the agreement of December 13, 1941 with Food Machinery (R. Vol. I, p. 276) (Int. R2109) and culminating in this suit, are bound together into a unitary whole by Section 8 of respondent's agreement with Food Machinery as above quoted, wherein respondent agreed to sue petitioners, under the Arthur process patent, and that all of those acts were component parts of a clearly disclosed and well-laid plan to establish a monopoly in the business of making and leasing potato driers.

In *American Tobacco Co.* v. *U. S.*, 328 U. S. 781, 809, this Court speaking through Mr. Justice Burton said:

> "It is not the form of the combination or the particular means used but the result to be achieved that the statute condemns. It is not of importance whether the means used to accomplish the unlawful objective are in themselves lawful or unlawful. Acts done to give effect to the conspiracy may be in themselves wholly innocent acts. Yet, if they are part of the sum of the acts which are relied upon to effectuate the conspiracy which the statute forbids, they come within its prohibition. . . ."

In the leading case of *Standard Oil* v. *United States*, 221 U. S. 1, it was held that "undoubtedly, the words 'to monopolize' and 'monopolize' as used in the (second section) reach every act bringing about the prohibited results."

And in *Swift & Co.* v. *U. S.*, 196 U. S. 375, 396, Mr. Justice Holmes, speaking for this Court said:

> "The scheme as a whole seems to us to be within the reach of the law. The constituent elements, as we have stated them, are enough to give to the scheme a body, and, for all we can say, to accomplish it. Moreover, whatever we may think of them separately, when we take them up as different charges they are alleged sufficiently as elements of the scheme. It is suggested that the several acts charged are lawful, and that intent can make no difference. But they are bound together as the parts of a single plan. The plan may make the parts unlawful. Aikens v. Wisconsin, 195 U. S. 194, 206; . . . The unity of the plan embraces all the parts."

It follows that a Court of Equity should not confine its attention to the words of the contract alone, but should extend its inquiry to the overt acts and relevant conduct of the parties to the agreement which were taken in furtherance of the unlawful scheme and in an attempt to carry it to fruition. Thus, in *U. S.* v. *Aluminum Co. of America*, 148 F.(2d) 416 (2nd Circuit sitting under the provisions of 15 U. S. C. Supp. IV, Sec. 29) the Court said (p. 428):

> ". . . for the contracts are only steps toward the entire control which monopoly confers; they are really partial monopolies."

Under the Clayton Act leases of machinery, the practical effect of which is to prevent the use of the machinery of competitors, are in violation of the statute. *International Salt Co.* v. *U. S.*, 332 U. S. 392. Such "tying contracts" are construed, not by their terms, but by their effect. *Standard Oil Co.* v. *Federal Trade Commission*, (CAA) 282 F. 81, affirmed 261 U. S. 463.

Furthermore, the fact that the lessor, in many instances, forebears to enforce the objectionable provisions in the lease does not make them any less agreements within the condemnation of the statute. *International Salt Co.* v. *U. S.*,

supra. Total suppression of the trade in a commodity is not necessary in order to render the combination or agreement one in restraint of trade; and the fact that competition is not wholly eliminated from the markets does not render the combination lawful where competition is clearly curtailed. *U. S.* v. *Socony-Vacuum Oil Co.,* 310 U. S. 150; rehearing denied, 310 U. S. 658.

When the findings of the District Court are interpreted in the light of the anti-trust laws, the holding of the Circuit Court in the instant case that

> "So far as the threats of suit for patent infringement are concerned, the evidence supports the finding of the lower court that these were made in good faith in protection of what plaintiff thought were rights secured by the patent and not pursuant to an unlawful attempt to extend the monopoly thereby granted."

is contrary to the decision of this Court in *Standard Sanitary Mfg. Co.* v. *U. S.,* 226 U. S. 20, in which this Court said that the prohibitions of the anti-trust laws cannot

> "be evaded by good motives. The law is its own measure of right and wrong, of what it permits or forbids, and the judgment of the courts cannot be set up against it in a supposed accommodation of its policy with the good intention of parties, and it may be of some good results."

In its decision, the Circuit Court cited *United States* v. *Bausch & Lomb Optical Co., et al.,* 321 U. S. 707, 719. It is submitted that this decision has no bearing upon the present situation. The portion of the decision relied upon related to the Government's request for an extension of a decree entered against Soft-Lite Lens Co., directing that the Company file 'with the District Court a written instrument providing that it will sell its product without discrimination to any person offering to pay cash therefor'.

In that decision there was no question of misuse of a patent involved, nor any question of threats and intimida-

tion of a competitor's customers based on alleged patent rights. While affirming the decision of the Court below that Soft-Lite's retail license provisions binding dealers to sell at locally prevailing prices and only to the public constituted illegal restraints, this Court in declining to grant the Government's request for an extension of the decree said:

> "Congress has been liberal in enacting remedies to enforce the anti-monopoly statutes. But in no instance has it indicated an intention to interfere with ordinary commercial practices. In a business such as Soft-Lite, which deals in a specialty of a luxury or near-luxury character, the right to select its customers may well be the most essential factor in the maintenance of the highest standards of service".

It is submitted that the Bausch & Lomb decision has no bearing upon the present situation where respondent misused a process patent, not only by entering into a contract based thereon directly in violation of the anti-trust laws, but attempted to, and did, by his indiscriminate threats to each and every one of petitioners' customers and potential customers, convey the impression that his process patent was so broad as to cover potato drying machines, whatever their manner of operation.

The case cited by the Circuit Court in the instant case (*U.S.G. & P.E. Corp.* v. *Hanson-Van Winkle etc. Co.*, 4 Cir. 104 F. 2d 856, 862) is not controlling, for while that suit was brought to enjoin threats of patent infringement, it was concerned only with threats made by a manufacturer of galvanizing machines who owned a machine patent, against another manufacturer of galvanizing machines and its customers. Since the instant case involves an attempt to extend a patent which, as this Court held in the Mercoid case, would make it measurable under the anti-trust laws, it is no defense that there was no wilful purpose or that the parties acted in good faith and without intention to violate the law. (*Harriman* v. *Northern Securities Company*, 197 U. S. 244, 298).

CONCLUSION.

It is submitted that if the decisions of the Courts below on petitioners' counterclaim are allowed to stand, it will be possible for the owner of a patent, no matter how questionable its validity, to violate the anti-trust laws with impunity. All that it will be necessary for him to do will be to intimidate competitors and their customers by threats based upon alleged infringement of the patent. Then, when called to account, the patent owner need only take refuge behind the patent by contending that his threats, however groundless, were made in good faith to protect rights which he supposed were accorded him under the patent. In short, the basic principle of law, that a wrongdoer is liable for the logical and natural consequences of his acts, will be abrogated so far as concerns the misuse of a patent in violation of the anti-trust laws. The detriment to the public and to free competitive business enterprise if such a situation is allowed to stand, is clear and justifies this Court in granting of the writ hereby petitioned.

American Potato Dryers, Inc., and
Broadus Wilson,

Jane Elizabeth Newton Dew,
Attorney for Petitioners.

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FILED
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CLERK

IN THE

SUPREME COURT OF THE UNITED STATES

OCTOBER TERM, 1950.

No. 439

AMERICAN POTATO DRYERS, INC.,
and BROADUS WILSON,
Petitioners,

vs.

FREDERICK C. PETERS,
Respondent.

BRIEF IN OPPOSITION TO PETITION TO THE UNITED STATES COURT OF APPEALS FOR THE FOURTH CIRCUIT AND BRIEF IN SUPPORT THEREOF.

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AMERICAN POTATO DRYERS, INC., and BROADUS WILSON,
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vs.

FREDERICK C. PETERS,
Respondent.

RESPONDENT'S OPPOSITION TO PETITION FOR WRIT OF CERTIORARI.

To the Honorable, the Chief Justice and Associate Justices of the United States Supreme Court:

INTRODUCTION.

Your respondent, Frederick C. Peters, (Plaintiff Below) hereby prays that the Petition of Writ of Certiorari, filed herein, be denied for the reasons that such Petition does not present any new or important question of federal law which has not been already settled by this Court and that the concurring decisions below of the Federal

District Court and of the United States Court of Appeals for the Fourth Circuit do not depart from the accepted and usual course of judicial proceedings.

CONCURRING OPINIONS BELOW.

The opinion of the Court of Appeals was filed September 13, 1950 and is reported at 184 F. (2) 165 (R Vol. VI pp. 1351-65) and that of the District Court was entered on December 2, 1949 (incompletely reported in R Vol. I pp. 30 to 45). The Lower Courts in these decisions held both of your respondent's United States Arthur Letters Patent invalid, denied relief to respondent for alleged breach of trust and confidence by defendants and also dismissed Petitioners' (Defendants below) counterclaims for alleged violation of the anti-trust laws as not being supported by the factual evidence.

JURISDICTION.

It is respectfully submitted that Petitioners herein erroneously seek a review of the concurring findings of fact of the two Courts below **without making a very obvious and exceptional showing of error** such as this Court has held is necessary under such circumstances in order to justify such review. (*Graver Tank and Mfg. Co. Inc. et al* v. *Linde Air Products Co.*, 336 U.S. 271, decided Feb. 28, 1949 (pp. 274-5))

SUMMARY AND SHORT STATEMENT OF CASE.

The Petition, herein, is directed solely to the subject matter of Defendant's counterclaims (Vol. I pp. 23-30) based on alleged violations of the anti-trust laws which were also relied on herein as defenses (Vol. III pp. 34-6) to Plaintiff's complaint (Vol. III pp. 1-29) for infringement of Arthur U. S. Letters Patent; **the two patents in suit,** Nos. 2,228,192 and 2,286,705, **having been held invalid** by the Courts below as being devoid of invention in view of certain prior public uses of third parties brought to light by defendants during the trial below.

Near the end of about four weeks of the trial of the case, on or about July 11, 1947, the defendants amended their answer (Vol. 1 p. 14 and pp. 29-30) setting forth that a license agreement, (Def. Ex. 245 Vol. I p. 282) granted by the plaintiff to Food Machinery Corporation, as to Patent No. 2,228,192 in suit, constituted, in paragraph 7, a violation of the anti-trust laws, thereby barring the relief prayed for by the plaintiff.

Shortly prior to this amendment the defendants offered in evidence the license agreement dated December 17, 1941 (Def. Ex. 245) but did not offer in evidence the modifying agreement dated March 13, 1946, (Vol. I p. 255) which had cancelled from the original agreement the first paragraph of Section 7 relied on by defendants, and thereupon the modifying agreement was received in evidence as plaintiff's Exhibit 260.

It should also be noted that the objected to provision of par. 7 of the original agreement was not only cancelled prior to the filing of this suit but that **the Courts below had found that the evidence did not show that either**

it or its modification had ever been in force and effect. (Vol. I pp. 42-43)

This agreement of Dec. 17, standing alone, was the only evidence submitted by defendants in support of their charge that the agreement with Food Machinery Corp. was a violation of the anti-trust laws.

The court in Conclusion of Law 13 (Vol. III p. 100) said:

> "The defendants would not in any event be entitled to an accounting for damages as to the portions of the counterclaim relating to the license agreement between Frederick C. Peters and Food Machinery Corp."

The District Court below denied all claims of plaintiff in a short tentative (3 pages) opinion of September 16, 1949 (Vol. III p. 67) which opinion was amplified into 41 pages on the basis of proposed findings of fact and conclusions of law submitted by defendants.

In addition, the defendants in further answering the suit urged in their counterclaims that plaintiff acted in restraint of trade in giving notice that he would enforce his patent in suit.

Defendants took many depositions at different locales in an unsuccessful attempt to establish malice on the part of plaintiff toward defendants. In this respect the District Court rendered the following findings of fact on defendants' counterclaims (Vol. I pp. 42-43):

> "4. The defendants have *not shown that plaintiff acted in bad faith in* any of his dealings with the defendants and with the trade.
>
> "6. The plaintiff did not adopt and persistently pursue a course of conduct in violation of the anti-

trust laws and to the injury of the defendants as alleged by the defendants. The evidence does not show that the **plaintiff planned to monopolize the business** of manufacturing and selling or leasing potato drying machines or that what **plaintiff did resulted in or was calculated to result in an illegal monopoly or** in any way affect in any unlawful manner trade and commerce among the several states except for the agreement with Food Machinery Corp. of December 17, 1941. **The evidence does not show that either the original or the modified provision of the agreement with Food Machinery Corp. was enforced** and that defendants have been injured in their business or property by reason of the unlawful provisions." (Emphasis ours)

Defendants have, in their main appeal brief, narrowed the issues by the following admission:

> "It is not contended that Peters succeeded completely in monopolizing the business of manufacturing and selling or leasing potato drying machines, * * *." (P. 12)

Defendants further pointed out that their witness Mercker (of the United States Dept. of Agriculture) "testified that less than 5% of the total potato crop was artificially dried in 1946." (Rec. 468).

The Court of Appeals in its decision of Sept. 13, 1950 (Vol. VI pp. 1353-65) affirming the judgment of the District Court, with respect to the Defendants' counterclaims, held as follows: (Vol. VI pp. 1364-5)

> "3. Violation of Anti-Trust Law.
>
> Defendants' counterclaim for damages under the anti-trust acts is based (1) on contracts between plaintiff and the Food Machinery Corporation to the effect that that company, which was contracting to manufacture machines for plaintiff under his patent,

would not manufacture, lease or sell any potato-drying machinery competitive with that of the patent, and (2) on threats by plaintiff to bring infringement suits against the licensees of defendants' machines. No extended discussion of these matters is necessary. **Defendants have shown no damage** resulting to them from the contracts between plaintiff and the Food Machinery Corporation; and for this reason, even if the contracts were violative of the anti-trust acts, which we do not decide (see *United States* v. *Bausch & Lomb Optical Co.*, 45 F. Supp. 387, 399, 321 U. S. 707, 719), they would furnish defendants no basis for recovery. So far as the **threats of suit** for patent infringement are concerned, the evidence supports the finding of the lower court that these **were made in good faith** in protection of what plaintiff thought were rights secured by the patent and **not pursuant to an unlawful attempt to extend the monopoly thereby** (fol. 1370) granted. See *U.S.G. & P. E. Corp.* v. *Hanson-Van Winkle etc. Co.*, 4 Cir. 104 F. 2d 856, 862.

For the reasons stated, the judgment appealed from will be affirmed.

Affirmed." (Emphasis ours)

STATEMENT OF FACTS.

Mr. Arthur, (the patentee in suit) a farmer of Florida and later a salesman of farm supplies (Vol. IV pp. 117-119; Hector pp 398), became cognizant in the early 1930s of the losses in shipment of potatoes occurring due to soft rot and commenced urging the use of heated air in drying washed potatoes. He met great opposition to his ideas, as it was thought that heat would injure the potatoes (Vol. IV p. 176), and it was only after he was employed in 1935 by the plaintiff, F. C. Peters (Vol. IV pp. 123-124), a large grower and packer of potatoes in South

Florida, that he was afforded an opportunity to develop and embody his ideas in a washing and drying apparatus which from the start (February, 1939) is admitted by both parties to have been a success (Vol. IV pp. 176-179; Feusier p. 268; Hincz pp. 404-405).

Arthur, in his endeavor to obtain equipment for carrying out his process, also disclosed his idea to Mr. Hincz, Defendants' employee in charge of defendants' Southern Air Conditioning Company's office at Miami, which concern was bidding on and finally did supply the air conditioning equipment for use in carrying out the Arthur process (Vol. IV pp. 404-405; Wilson pp. 770; Arthur pp. 154-156).

Mr. Hincz, who testified he had Mr. Arthur's and Mr. Peters' confidence (Vol. IV p. 421) also testified that he had no experience in potato washing and drying until approached by Arthur from whom he learned about same (p. 414) when Arthur disclosed how he wanted to treat washed potatoes; and he further admitted he derived all of his knowledge in that respect from Arthur (pp. 411-414); and furnished information relative to same to Wilson in March, 1939 (Def. Ex. 45 Vol. p. 1100).

The process invention of Arthur, Patent No. 2,228,192 was embodied in two full size potato washing, drying, sizing and packing lines in the packing plant of plaintiff at Goulds, Florida. These installations were shown to be capable of handling in excess of 300 bushels of potatoes per hour on each line.

Defendant **Wilson** visited plaintiff's plant in 1939 (Vol. IV pp. 405-7) and **volunteered** (when plaintiff Peters told him he had had no experience in patent matters) **to attend to the patenting of the inventions present in the new potato processing system** (pp. 379 and 178).

Defendant Wilson had his patent attorney, Newton, in the spring of 1939 investigate the patentable aspects of the Arthur potato drying system and obtained an opinion (Pl. Ex. 53, Vol. VI 916) that the dryer displayed patentable features (Vol. IV p. 528).

Defendant Wilson, commenced to make a potato dryer and in ensuing conferences between himself, Peters and Arthur at Miami, he represented to Peters that he was in a position to manufacture the potato drying equipment. It was proposed that by combining their efforts they could lease such equipment to the potato farmers and packers and each benefit from the proceeds of such joint venture (Wilson's memo to his attorneys, Pl. Ex. 177, Vol. VI p. 980; Hincz memo Pl. Ex. 54, Vol. VI p. 919).

The parties, as a result of these conferences, came to an agreement (Vol. III pp. 17 to 29) and they entered into a joint enterprise known as General Produce Dryers, Inc. in which both were stockholders, directors and officers, the purpose of which concern was to lease to the trade equipment licensed under the inventions owned by plaintiff and which equipment the defendant was to manufacture through one of his companies for the new company (Records of General Produce Dryers, Inc., charter and minutes, Pl. Ex. 22).

The plaintiff Peters advanced the money (Vol. IV p. 392, and Vol. V pp. 589-590) for the new venture which was incorporated and **Wilson and his company, under an exclusive license from General Produce Dryers, commenced to and did manufacture 11 units of potato processing systems pursuant to this joint arrangement.**

The parties in this new company prepared a form of license agreement for use in the leasing of this equipment and some 15 leases (Pl. Ex. 259f, Vol. VI p. 1083 is an example) were ultimately obtained (Vol. V p. 778); it being understood by agreement that as part of the joint venture all patent rights in the development and inventions of Arthur were to be the exclusive property of plaintiff but that the new company was to be licensed to use the process of these inventions (Wilson memo to his attorneys Pl. Ex. 177, Vol. VI p. 980).

The parties disagreed over financial matters and by August 31, 1940 (Vol. III p. 9) consummated the final agreement here in suit; Peters paying defendant Wilson's company a total of approximately $92,000.00 for all of Wilson's interest in General Produce Dryers, Inc.

By this agreement Plaintiff contended defendant agreed not to manufacture, sell, or lease the subject which had been previously licensed jointly by them to the trade. Defendant Wilson wrote his employee Hincz on September 6, 1940 (Def. Ex. 91; Vol. VI p. 1123) that he had collected from Peters and said that he expected to have some more fights with Peters.

As early as November, 1940 Wilson commenced approaching customers who had previously leased equipment of General Produce Dryers, Inc. (Wilson dep. p. 116) including Phillips Co. of La Crosse, Wisconsin in an endeavor to get them to use equipment of the defendant American Potato Dryers, Inc. Included in his list of customers (Pl. Ex. 104-112) were previous customers of General Produce Dryers, Inc. who had been leased hot air dryers for washed potatoes while defendant and plaintiff were in business together.

The defendants' activities subsequent to the termination of the joint venture with Peters culminated in defendants installing numerous potato drying and washing plants throughout the country, including the one at Burrichter's plant, installed during 1945 in Homestead, Florida, which is representative of the current type being manufactured and installed by the defendant, American Potato Dryers; and for that reason was selected to show the process of washing and drying being installed and put into operation by defendants in potato packing plants (Pl. drawing Exs. 116-117, 152; photos 158b, c, d and e).

These aforesaid activities of defendant Wilson together with his failure to turn over to plaintiff improvement patents and applications under the agreement of August 31, 1940 were the basis of plaintiff's present suit.

Defendants, on the basis of their original counterclaims, directed their claims for violation of the antitrust laws to plaintiff's efforts to keep the customers and lessees of the joint business, in which plaintiff had purchased defendant Wilson's one half interest for nearly $100,000.00. Defendants urge that Plaintiff had no right to tell the previously licensed customers, of that joint business, that if they used the equipment of the defendants in infringing Plaintiff's process they would be running the risk of a patent infringement suit.

The concurring Lower Court opinions properly held that the factual evidence did not show that plaintiff in acting, as aforesaid, to preserve his legal rights was acting in bad faith or contrary to law.

The defendants, after nearly a month of trial, offered in evidence the aforesaid exclusive license agreement (Def. Ex. 245) between Plaintiff and Food Machinery Corpora-

tion but made no offer whatsoever to prove it had ever been enforced. The record shows that long prior to the trial defendants during the taking of pre-trial depositions had knowledge of this agreement and could have obtained discovery thereon by the taking of depositions of representatives of Food Machinery Corporation, which they did not do.

The record further shows that plaintiff of his own accord thereafter called as witness in open Court R. S. Grant who was the manager of the Vegetable Machinery and Processing department of Food Machinery Corporation (Vol. V pp. 748-756). Mr. Grant testified with regard to Par. 7 of Art. 1 of the original agreement that it had been changed and that *"we are not operating under that paragraph whatsoever"* (Vol. V p. 749). He further testified on cross examination by defendants' counsel that his company was *and had been making equipment for about three years competitive to that licensed by Plaintiff on which no royalties had been paid to plaintiff.* (Vol. V p. 755)

Petitioner so completely mistakes the facts in its Petition and Brief that no credence can be given same. For example, on page 7 appears the following misstatement:

> "The following facts are admitted in the record:
>
> (1) Respondent never issued any licenses under his process patent except the one to Food Machinery Corporation and in connection with the leasing of his own machines (R. Vol. I, p. 278) (R. Vol. IV, p. 381).
>
> (2) During the year 1941 Peters conducted the business of leasing potato driers (R. Vol. I, p. 34) through his wholly owned Generally Produce Dryers,

Inc. (R. Vol. I, p. 236) (Pl. Ex. 22, Int. at O. R. Vol. IV, p. 599) through which he owned eleven driers (R. Vol. I, p. 276)."

Reference to page 278 of Vol. I of the record reveals these exceptions to the exclusive license of December 17, 1941 to Food Machinery Corporation *"with the exception of rights granted to Tropical Agricultural Cooperative Association* of Goulds, Florida as specified in Article II hereof and that given in the previous leasing by General Produce". It is significant to note that defendants did not print the entire agreement in the record and that included in the unprinted portions is Article II.

Mr. Peters also testified he had licensed, in addition to the Food Machinery Corporation, "Farsouth Growers Cooperative Association (Vol. IV, p. 381).

Again on page 12, Petitioners erroneously make it appear that Plaintiff must have known that the use of defendants' first leased type of flash driers was not an infringement of the Arthur Patent but conveniently overlooks that plaintiff was acting by and with advice of counsel as is evident from the following quoted portions of a letter dated July 22, 1941 (Def. Ex. No. 20, Vol. I, p. 257) to defendant Wilson from plaintiff's counsel:

"Since our last correspondence with you, we have had an opportunity to investigate the potato drier which you are offering to the trade, and have ascertained that the process of drying potatoes practiced by this drier is an infringement of our client's above identified Patent No. 2,228,192.

From laboratory tests which have been made on samples dried by one of your machines in Alabama, we have ascertained that not only does the machine

dry potatoes in the same way as covered by the claims of our client's patent, but in addition thereto the potatoes that were thus dried definitely displayed a biological change.

Accordingly, we desire not only to notify you of your infringement of our client's above patent but that in addition you have violated your agreement with our client, Mr. Frederick C. Peters, in that you are selling equipment which you agreed not to do.

We therefore request that you desist from further infringement of our client's above patent, and that you in addition account to our client for past infringement.

In view of our client's instructions, we shall have no other alternative, in the event that the infringement complained of is not promptly discontinued, than to resort to legal action directed toward bringing about a recognition of our client's rights."

QUESTION PRESENTED BY PETITION.

The principal question presented by the Petition herein, is whether this court should set aside the exhaustive findings of fact of the District Court holding that the activities of plaintiff in endeavoring to enforce his patent and contractual rights and especially as against his former business partner Wilson and the customers of their joint licensing business, were in good faith and not in violation of law.

ARGUMENT.

Malice or Bad Faith by Plaintiff Has Admittedly Not Been Established.

Apparently Petitioners, in their position as to it not being necessary to show malice and bad faith, do not agree with the ruling in the case of *Alliance Securities* v. *DeVilbiss*, 41 F. (2d) 668 (1930), wherein the Court of Appeals of the 4th Circuit, at page 670, said:

> "We are aware of no ground upon which claims of infringement made by a patentee can be considered a legal wrong **unless those claims are made in bad faith; that is, maliciously.** This bad faith may be made to appear in a variety of ways, but until it does appear the patentee has the right to notify all those whom he believes to be infringing that he will hold them for such liability as he may be able to establish; indeed, it has been said that it is his duty to do so, and it is apparent that under some circumstances he may lose rights if he does not do so * * *." (Emphasis ours.)

The Courts below herein, factually found that the **plaintiff had not "acted in bad faith** in any of his dealings with the defendants and with the trade," and that **the evidence does not show that "plaintiff planned to monopolize the business** of manufacturing and selling or leasing potato drying machines or that what plaintiff did resulted in or was calculated to result in an illegal monopoly." (Findings of Fact, 4 and 5, Vol. I, pp. 42-43).

Defendants in their counterclaims rely on the letter from plaintiff's attorneys of record to Mr. Wilson dated

July 22, 1941, (Def. Exh. 20, Vol. I, p. 257) notifying defendants of their infringement of plaintiff's patent and on certain alleged conversational statements by Mr. Arthur to former customers of the joint enterprise, General Produce Dryers, Inc., to the effect that Mr. Peters was going to enforce his rights against infringers. Except for Wilson's unsupported statement, there is no evidence that any one had been threatened by the plaintiff Peters.

Such evidence, submitted by defendants, was properly held inadequate by the Lower Court as same, at most, amounted to nothing more than notice by Plaintiff as to what he considered to be an encroachment on his property rights. As this Court held in the *Alliance* case (*supra*) it may be said to be the duty of a patentee to give notice of infringements.

In this respect it should be observed that plaintiff's rights in question were not only those under letters patent but also those existent by reason of the fiduciary and confidential relationship between Wilson and plaintiff during their joint dealings with the customers of General Produce Dryers, Inc.

Defendant's Counterclaims Are Untenable as Being Contrary to Equity and Good Conscience.

Wilson readily admitted that he took the business from Peters' former customers and replaced Peters' equipment with his own:

"Q. **Nevertheless you did take their business in many instances?**

A. We accepted it.

Q. And replaced the equipment of General Produce Dryers by your own equipment?

A. In some instances." (Trial Trans. p. 272).

Wilson, in his letter dated September 25, 1941, (Plf. Exh. 82, Vol. VI) referring to Peters, said:

> "We operated four machines in Alabama all season with customers Mr. Peters had last year. We have three machines operating in the north now with customers Mr. Peters was sure he had for his machine, and we had two machines in North Carolina, operating for customers which he had last year, and which he thought he was going to sell this year, **and up to this present moment, he has not notified anyone using our machines that they were infringing his process,** * * *"

Again, in Wilson's own letter of September 3, 1941, to Hincz (Def. Ex. 103, Vol. VI p. 1132), Wilson said:

> "Skipper went to see our customers, but strangely made no threats and did not disturb them in any way." ("Skipper" alluding to Arthur).

In the case of *Hoeltke* v. *C. M. Kemp Mfg. Co.*, 80 F. (2d) 912, the Court of Appeals of the 4th Circuit passed upon a confidential relationship existent between two parties in the development and exploitation of an invention which was not as strong a case as here presented, since there was no express agreement involved there. The Court said:

> "While there was no express agreement that defendant was to hold the information so disclosed as a confidential matter and to make no use of it unless it should purchase the invention, **we think that in equity and good conscience** such an agreement was implied; and **having obtained the disclosure under such circumstances, defendant ought not be heard to say that there was no obligation to respect the confidence thus reposed in it.**" (Emphasis ours) (Page 923)

There can be no question but what Wilson's relationship to Peters was a confidential one in the light of the facts

brought out hereinabove, and especially in view of the fact that Wilson had originally volunteered to make application for patent on the Arthur invention (pages 43-45 of previous brief).

As this Court properly said in the *Hoeltke* case (*supra*):

> "* * * It would be a reproach to any system of jurisprudence to permit one who has received a disclosure in confidence to thus appropriate the ideas of another without liability for the wrong" (page 923).

A mere comparison of the representative defendant's drying installation at the Burrichter Plant with that at plaintiff's plant (on which a patent was to be secured by Wilson) as evidenced by the chart, Plf. Exh. 152-154 (Vol. VI p. 1081) suffices to show that they are substantially identical.

Under such a situation, this Court has ruled in the *Hoeltke* case as follows:

> "* * * The similarity of defendant's device to that of complainant is strong proof that one was copied from the other; for it is hardly probable that different persons should independently of each other invent devices so nearly similar at so nearly the same time." (Page 924)

The law of this *Hoeltke* case was further expounded by the Court in the case of *Saco-Lowell Shops* v. *Reynolds*, 141 F. (2d) 587, wherein the Court of Appeals for the 4th Circuit held as follows:

> "* * * 'Wherever one person is placed in such relation to another, by the act or consent of that other, or the act of a third person, or the law, that he becomes interested for him, or interested with him in any subject of property or business, he is pro-

hibited from acquiring rights in that subject antagonistic to the person with whose interests he has become associated'." (Page 597)

"Where, in advance of the granting of a patent, an invention is disclosed to one who, in breach of the confidence thus reposed, manufactures and sells articles embodying the invention, such person should be held liable for the profits and damages resulting therefrom, not under the patent statutes, but upon the principle that equity will not permit one to unjustly enrich himself at the expense of another." (Page 598)

In the light of this well established law as to confidential relationships, plaintiff cannot be said to have been acting in bad faith even if he did notify his own (General Produce Dryers, Inc.) customers of the fact that he had bought Wilson out and was endeavoring, himself, to carry on the business of leasing the equipment he acquired as a result of Wilson's sell-out.

Counterclaims of Defendants Were a Part of Scheme of Wilson to Deprive Plaintiff of the Benefits of the Agreement of August 31, 1940 and of the Arthur Patent.

The defendant Wilson early in his program of building up alleged defenses directed to justifying his appropriating of the business he sold plaintiff, concocted the idea of stirring up the trade against Peters with a view of laying the foundation for the contentions now made in the counterclaims as to unfair trade practices.

For illustration, three days after the Arthur patent issued and less than four and one-half months after he had signed the agreement of August 31, 1940, Wilson wrote a letter dated January 10, 1941 (Plf. Ex. 104, Vol. VI p

951) to Phillips, a former customer of General Produce Dryers, Inc., in which Wilson said,

> "We now have a copy of Mr. Peters' much talked of patent and it is not anything to worry about."

The defendant Wilson also admitted that he himself was stirring up the customers against the plaintiff. In this respect, he testified:

> "Q. **You weren't trying to stir up animosity?**
>
> "A. **Probably I was to some extent.**
>
> "Q. So you finally admit that that was what you were trying to do?
>
> "A. That isn't an admission.
>
> "Q. What is it then?
>
> "A. **It is a plain statement.**" (Trial Trans. p. 349) (Emphasis ours.)

Wilson deliberately, as a part of his plan, fomented bad feelings on the part of Peters' former customers by constantly keeping them posted on his dealings and relationship with Peters. In testifying as to his letter to Whitnack (Plf. Exh. 82 Vol. VI p 935) he said:

> "Q. Anyway, you're keeping your customers posted on your relationship with Mr. Peters?
>
> "A. Mr. Whitnack had written.
>
> "Q. **Were you keeping your customers posted on your relationship with Mr. Peters?**
>
> "A. **Yes sir.**" (Emphasis ours.) (Trans. p. 348)

The foregoing are typical of the ingenious methods worked out by the defendant Wilson to cause Peters' customers to become antagonistic to Peters and Arthur. In this regard, Mr. Arthur, in his testimony, summed up the situation as follows:

> "Well, in a few words, what I did was to attempt to define our position in this controversy. Every-

where I went, in attempting to interest people in our driers, was the fact that they had heard that we were going to sue them. Place after place I would go in and talk to them, and I met with resistance from the very first, asking me what was the idea. I asked them what did they know about any suit being brought, and they told me that Mr. Wilson had advised them that Peters was going to sue them." (Vol. IV, 232-4)

Defendants Have Cited No Authorities Justifying Any Finding That the Plaintiff's Contract with Food Machinery Corporation Is in Restraint of Trade.

Although Petitioners cited, in their brief, the cases of *Leitch Manufacturing Co.* v. *Barber Company,* 302 U. S. 458; and *Mercoid Corp.* v. *Mid-Continent Co.,* 320 U. S. 661, neither of them are pertinent. Both of those cases have to do with the use of patents to control competition on unlicensed material which, in the *Leitch* case, was a bituminous emulsion; and in the *Mercoid* case, were switches. In the instant case, the patent rights asserted by Plaintiff have to do with the actual practicing of the patented method in the drying of potatoes. Plaintiff did not, in any way, undertake to control by his patent unlicensed materials such as fans, blowers, conveyors, or even the potatoes themselves.

Actually, the Defendants have failed to cite even a single authority that holds that provisions like the one cancelled from the original Food Machinery contract, or the substitute provision, are violations of the anti-trust laws.

Defendants themselves, in their agreement with the Ryan Potato Company, (Plf. Cr.-Exh. G, Vol. VI, p. 876) dated December 16, 1940, **included a similar provision** to that here objected to, which read as follows:

"11. **It is understood that you will not handle competing equipment** or use the same during the life of this contract except the two machines you now have from General Produce Dryers, Inc." (Emphasis ours.)

According to Mr. Ryan's testimony (App. Vol. V, pp. 516-520) that agreement has never been cancelled.

The Defendants also have no answer for the testimony of Mr. Grant, the manager of the Vegetable Processing Division of Food Machinery Company, that for a number of years before this suit was even filed, his company was selling equipment in competition with the equipment being leased under the Arthur process patent. (Vol. V pp. 749 and 755).

Defendants had a full opportunity to cross examine Mr. Grant in open Court as to the activities of his company under the licensing agreement with Plaintiff, and nothing appeared from Mr. Grant's testimony that in any way indicated that his company was operating in restraint of trade under the license with Plaintiff.

~~QUESTION VI.~~

Defendants Admittedly Have Proven No Damages.

On the question of damages, during the argument on appeal, the attorney for Defendant who argued the counterclaim matter **admitted that Defendants had been unable to establish any damages** (as was so held by the Lower Court). He then attempted to justify Defendant's position on the ground that Defendants did not have access to the Food Machinery agreement until late in the trial. Obviously, such a contention does not obviate the necessity of Defendants' proving damages, especially since

under the new rules of discovery, a party has ample means, in advance of trial, to prove up his case. Defendants made no effort whatsoever to subpoena or interrogate any of the officials of Food Machinery Company, their employees, or any of the customers of Food Machinery Company. Hence, it must be assumed that the reason Defendants did not call such witnesses, especially in the light of the otherwise exhaustive taking of depositions by Defendants in this case, was that any testimony that would have been given would have been contrary to Defendants' position on their counterclaims herein.

The defendants, having failed to prove any damages, of necessity cannot have any recovery on their counterclaim. In *Clark Oil Co.* v. *Phillips Petroleum Co.*, 148 F. (2d) 580 (C. C. A. 8, 1945) the Court discussed the necessity for such proof and stated:

> "* * * Wrong without damage or damage without wrong does not constitute a cause of private action, and it is not the purpose or intent of the law that damages shall be recoverable by two where only one has suffered injury. The Sherman Act and Clayton Act afford a cause of action for those suffering damages."

Wilson's whole case simmers down to his uncorroborated statement to the effect that Peters threatened him at the Seven Seas Restaurant, on January 20, 1941 if he went into the potato drying business. It is strange that Wilson's own report, dated January 23, 1941, of that conference (Def. Ex. 176) makes no reference to any such threat.

One week after this alleged threat, namely, on January 27, 1941, Wilson wrote Peters a very friendly letter relative to his company making rollers for Peters (Def. Ex. 222), and concluded his letter as follows:

"I don't think we will be back to Miami as I am shipping my family to Arizona this week."

If Peters had threatened him the week before, he certainly would not have received such an order or would have been writing Peters in such a friendly vein.

Again on March 18, 1941, Mr. Hincz, acting for Wilson, obtained an order for eleven fans from Peters and wrote Wilson as follows:

"I spent with Mr. Peters most of the afternoon yesterday. I expect today or tomorrow to get an order for 11 Buffalo Ford blowers and about $15,000.00 of refrigeration unless he changes his mind again."

A year later, namely, on March 16, 1942, Hincz wrote to Wilson (Def. Exh. 111) relative to additional prospective new freezer business as follows:

"—Yesterday I had a visit with Mr. Arthur. We had quite a nice talk for an hour or more. They want to make some changes in tools. They had the best season as far as quantity, also as far as price. Mr. Peters, whom I met on two occasions recently, intends to go into the quick freezing business. I hope on a large scale. As yet he has not decided how much money he wants to invest. I think he wants to know first how much money he made on potatoes and this will take another week or ten days to find out."

On April 11, 1941, Wilson, with regard to Defendant's potato driers, wrote to Peters as follows:

"These have been very favorably received by potato people and **we have orders for all of these we can build this year.**" (Emphasis ours.) (Pl. Ex. 79, Vol. VI p. 932).

Actually, the record conclusively establishes that the Defendants had all the business they could handle, and if

they were not able to make deliveries, it was because of the shortage of materials occasioned by World War II.

On December 28, 1940, Wilson (American Potato Dryers) wrote to L. T. Rhodes (Pl. Ex. 225):

> **"Mr. Arthur and Mr. Peters have been cutting all kinds of didos up this way but none of our customers have paid any attention to them.**
>
> • • • •
>
> **"All of the people who had machines last year have contracted with us."** (Emphasis Ours)

On April 11, 1941, Wilson wrote to Peters:

> "On account of the slowness of deliveries of some of the materials and equipment due to the armament program, it seems that we will only be able to build eight of these dryers by June and **we are turning down customers every week.**
>
> • • • •
>
> "These have been very favorably received by potato people and **we have orders for all these we can build this year.**" (Emphasis Ours) (Pl. Ex. 79, Vol. VI p. 932).

The Lower Court was correct, therefore, in finding that the Defendants have utterly failed to prove any damages under their alleged counterclaims. (Conclusion of Law 13 Vol III p. 100).

CONCLUSION.

The Lower Court's decisions should not be disturbed and hence the Petition herein should be denied.

Respectfully submitted,

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